

FMS REINVENTION PROJECT

“Firm Fixed Price and Not to Exceed LOAs”



Security Cooperation Conference
10-12 July 2000

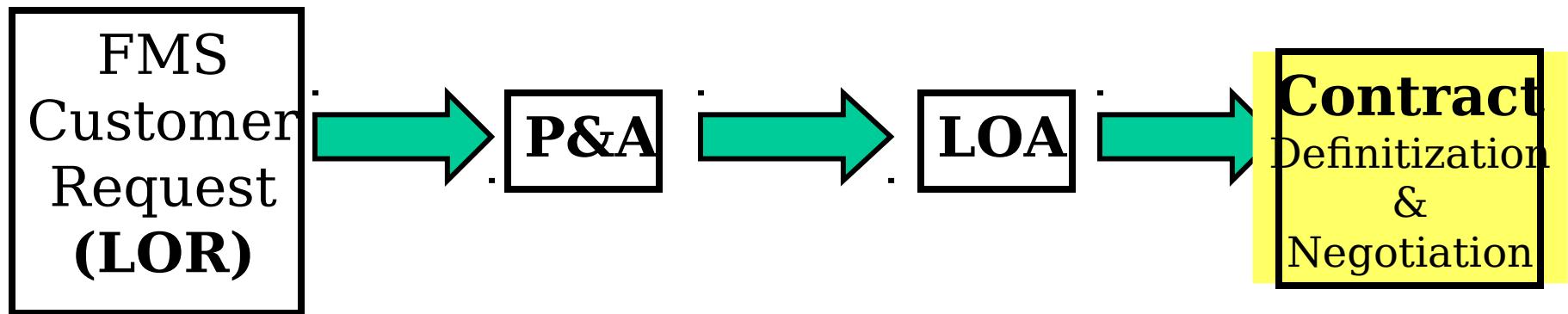
The Task

Explore expanded use of Firm Fixed Price (FFP) and Not To Exceed (NTE) Letters of Offer and Acceptance (LOAs).

Data From All Closed FMS Cases Ordered Value Vs. Closed Value (\$Mil)

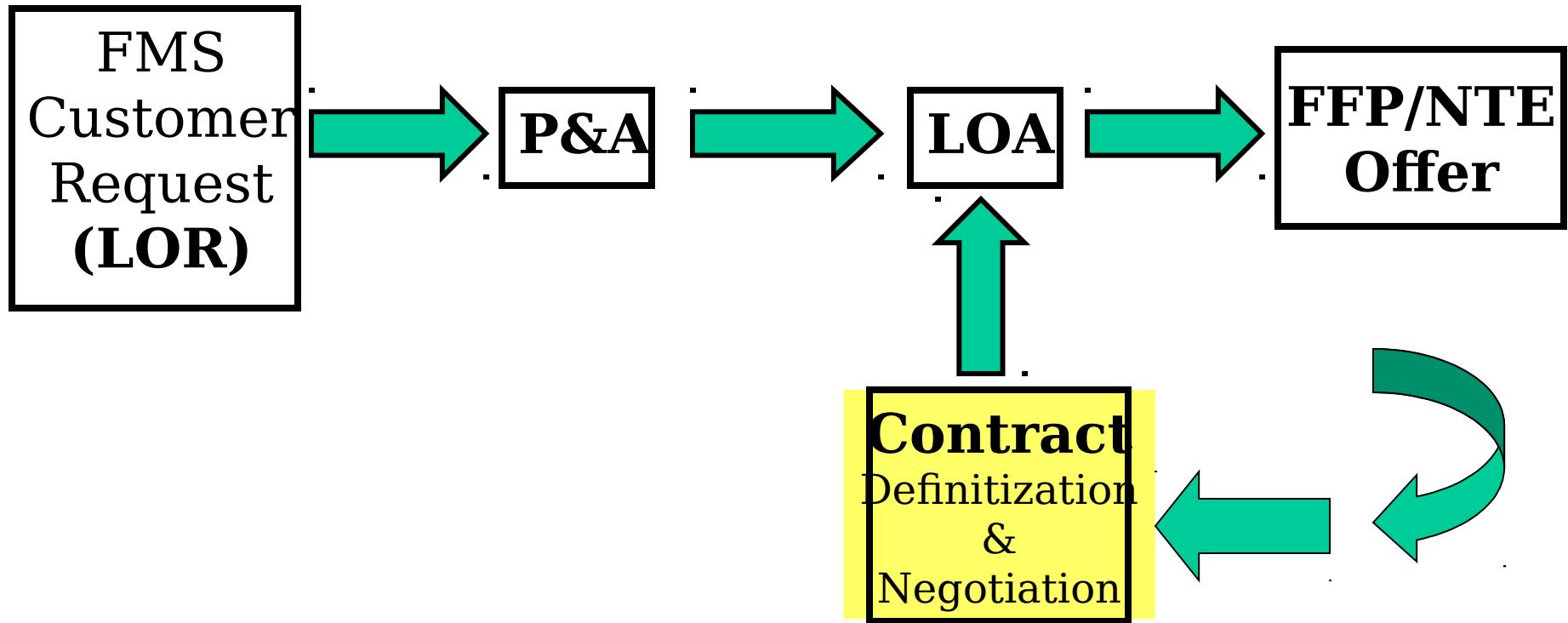
	<u>LOA</u>	<u>Billed</u>	<u>% Diff.</u>
Army	31,793	28,052	+11.8%
Air Force	35,116	30,544	+13.0%
Navy	17,339	15,381	+11.3%

How Are We Doing Business Now?



Most of the “Heavy Lifting” is Done at the Back End

What Would Change Under FFP/NTE?



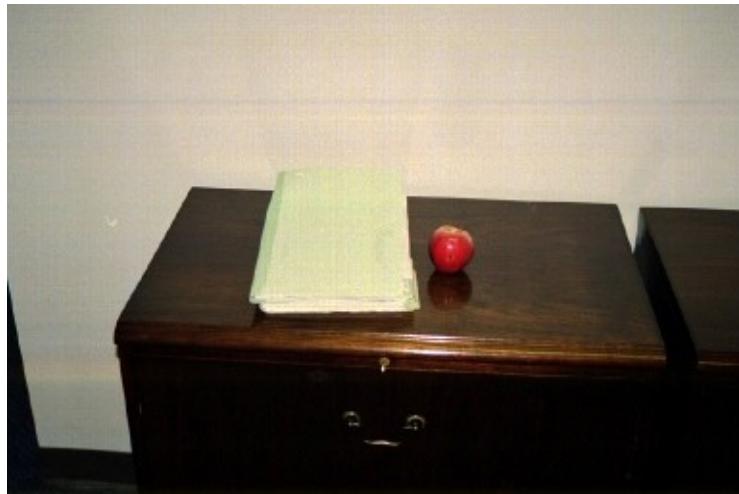
The Workload Shifts to the LOA Phase Where Becomes Admin Funded With No Assurance

Major Findings

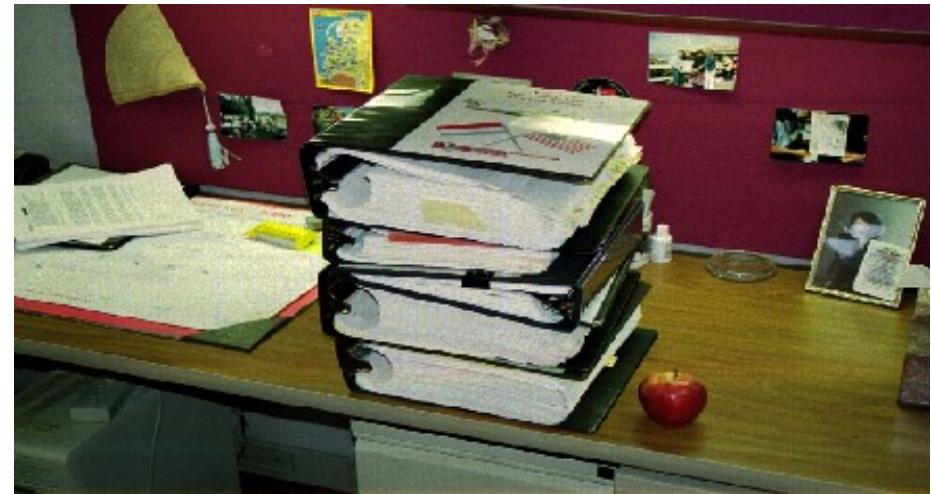
1. We do a surprising amount of FFP contracting already on behalf of our customers.
2. New Procurement NTE LOAs are resource intensive. Should be used “as an exception, rather than rule.”
3. Increased use of FFP sales “From Stock” is feasible and may be to the customer’s advantage.

FFP/NTE Has Substantial Resource Implications for Large Cases/Competitions

“Normal” LOA



NTE LOA



LOA For Finnish F-18
64 Fighters; \$3.2 Billion

LOA For Dutch Apache
30 Helos; \$699 Million

New Policy

- ✓ Published 15 June 2000
- ✓ Provides for:
 1. NTE LOAs for new procurement as “exceptions” (admin.-funded)
 2. Encourages from stock FFP LOAs.
 3. Customer requests for NTE LOAs (case-funded).

For details: www.dsca.osd.mil

(under Security Cooperation Reinvention)

BACK-UPS

Most FMS Contracts Are Fixed Price

(FMS Contracts Let by U.S. in FY 1999)

	<u># Contracts</u>	<u>\$Mil</u>
• FFP Redetermination:	17	31
• Firm Fixed Price:	1926	4266
• FFP Economic Price Adj.	11	7
• Fixed Price Incentive	26	77
• Cost + Award Fee	36	276
• Cost Contract		12 15
• Cost + Fixed Fee	228	400
• Misc.	<u>197</u>	<u>673</u>
Total:	2,453	5745

80% FFP
for
\$4.4B

*

tracts over \$25,000. We let 46,000 contracts under this threshold totaling \$11

Have We Ever Done FFP/NTE?

Dutch Apache Lessons Learned

- **Armed Helicopter Competition**
 - Army Apache/Navy Cobra
- **14 Month Effort to Signed LOA**
 - Spun-up late 1993; RFP let Feb 1994; LOA signed Dec 94
- **Started commercial; lead assumed by USG**
- **Labor and travel intensive:**
 - **Labor: \$5 million (800 man months)**
 - **Travel: \$400,000**



FFP/NTE from “New Procurement”

Upside

1. Rigorous, up-front three-party scrub of customer requirements
2. Tailored customer package
3. Firm price
4. Increased customer satisfaction

Downside

1. Resource intensive
2. Large competitions can be lost
3. FMS overhead is a zero sum game
 - Big ticket sales vie with routine and low volume transactions for attention

“From Stock” Weapons & Ammunition FFP Candidates

“As Is” Articles* &Ammo	Refurb MDE In-house	Refurb MDE <u>Contract</u>
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- 1 Replace Item
- 2 Don’t Replace Item

Yes
Yes

Difficult	More Difficult
Difficult	More Difficult

Require
“Revolving
Fund”
& New
Legislation

We should focus on the “Yes” column first

* Excess and Non-Excess MDE and non-DWCF Secondary Items